



THE PRESIDENT
OF THE
GENERAL ASSEMBLY

19 September 2016

Excellency,

I have the honor to transmit forthwith a letter from the Secretary-General of the United Nations, H.E. Mr. Ban Ki-moon, dated 15 September 2016, in connection with an Update to the Special Report on the financial crisis facing the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), submitted on 14 September by the Commissioner-General, Mr. Pierre Krähenbühl.

The Update to the Special Report draws attention to the funding shortfall of \$74 million that UNRWA currently faces on its core operating budget funded by voluntary contributions. The Commissioner-General reports that, unless the shortfall is bridged, UNRWA will be unable to continue delivery of essential services to the Palestine refugees through the end of the year.

Noting that UNRWA faced a similar financial crisis last year, I join the Secretary-General in expressing serious concerns about the fragile state of the Agency's financing, and the major humanitarian, political and security risks that would result from a suspension of its vital work on behalf of some 5.3 million Palestine refugees, including those in 59 refugee camps located in Jordan, Lebanon, Syria, and the occupied Palestinian territory.

I also join the Secretary-General in his appeal that the funding crisis facing UNRWA in 2016 be addressed and that the Agency not be confronted by further crises in the years beyond. To that end, I encourage your respective authorities' active engagement in efforts to urgently tackle the problems faced by UNRWA, including through action in support of the recommendations contained in the Update to the Special Report. Given the special role entrusted in 1949 to UNRWA by the General Assembly, to promote the well-being of the Palestine refugees, and the generous support of Member States that has sustained the Agency since, the financial challenges facing the Agency must be addressed as a collective priority.

Please accept, Excellency, the assurances of my highest consideration.

A handwritten signature in black ink, appearing to read 'Peter Thomson', written in a cursive style.

Peter Thomson

All Permanent Representatives and
Permanent Observers to the United Nations
New York



THE SECRETARY-GENERAL

15 September 2016

Dear Mr. President,

I have the honour to convey a letter dated 14 September 2016, from Mr. Pierre Krähenbühl, Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), submitting an update to the Special Report on the Financial Crisis of the Agency that was transmitted to the membership of the General Assembly on 4 August 2015, pursuant to paragraph 21 of General Assembly resolution 302 (IV) of 8 December 1949. The letter and Update are annexed hereto.

In the Update to the Special Report, dated 14 September 2016, the Commissioner-General draws attention to the severe funding gap that UNRWA is once again facing, with a core budget which finances the delivery of essential services, including basic education and health, to a population of some 5.3 million Palestine refugees registered in Jordan, Lebanon, the Syrian Arab Republic, and the occupied Palestinian territory (including East Jerusalem). The funding gap stands at US\$74 million, placing at risk the ability of UNRWA to maintain its vital operations through the end of 2016. The Update calls for urgent and sustained action by Member States to close the funding gap for 2016, and place the Agency on a more stable financial footing on a medium-term basis.

The scale of the financial crisis triggered an extraordinary meeting of the UNRWA Advisory Commission on 8 September 2016, in Amman, Jordan, the second of its kind in two consecutive years to address the unstable funding situation of UNRWA. Expressing full support for the Agency, the membership of the Advisory Commission, in particular host Governments and major donors, collectively underlined the need for UNRWA to continue delivering assistance to the refugees in line with its mandate, and to sustain its fundamental contribution to stability in the region.

His Excellency
Mr. Peter Thomson
President of the General Assembly
New York

Given the magnitude of the financial crisis facing UNRWA this year, and to address the grave risk to its operations posed by such funding shortfalls year after year, I support fully, and with a strong sense of urgency, the findings of the Update to the Special Report and the recommendations for the General Assembly and Member States to act collectively to enable the Agency to fulfil the mandate entrusted to it and which the Agency has diligently carried out since its operations began in 1950. In this context, I note that the draft New York Declaration for Refugees and Migrants, to be adopted on 19 September 2016, underlines that UNRWA requires sufficient funding to be able to carry out its activities effectively and in a predictable manner. With the United Nations system and Member States focused this year on the global refugee issue and on the ongoing crises in the Middle East, I believe the time has come to act decisively to support the vital work of UNRWA on behalf of Palestine refugees.

I should be grateful if you could bring the present letter and its attachments to the attention of Member States and Observer Missions.

Please accept, Mr. President, the assurances of my highest consideration.



BAN Ki-moon

Letter of transmittal

14 September 2016

I have the honour to submit to the Secretary-General an Update to the Special Report by the Commissioner-General of UNRWA of 3 August 2015, dated 14 September, pursuant to paragraph 21 of General Assembly resolution 302 (IV) of 8 December 1949.

I would be grateful if the Secretary-General could bring the Special Report to the urgent attention of the Permanent Representatives of Members and Observers of the United Nations.

I would like to take the opportunity to express my deep appreciation for the strong support for UNRWA of the Secretary-General, Deputy Secretary-General and the staff of the Executive Office of the Secretary-General.



Pierre Krähenbühl
Commissioner-General

**Update to the Special Report of 3 August
2015 of the Commissioner-General of the
United Nations Relief and Works Agency for
Palestine Refugees in the Near East on the
Financial Crisis of the Agency**

14 September 2016

Introduction

1. On 3 August 2015, the Commissioner-General of the United Nations Works and Relief Agency for Palestine Refugees in the Near East (UNRWA) submitted a Special Report on the Financial Crisis of the Agency to the Secretary-General of the United Nations¹, who transmitted the Special Report to the President of the General Assembly on 4 August 2015 (see A/70/272). The Special Report was submitted pursuant to paragraph 21 of General Assembly resolution 302 (IV) of 8 December 1949.

2. In the Special Report, the Commissioner-General set out the dramatic dimensions of the funding shortfall facing the Agency in its core programme budget for 2015. The Special Report outlined efforts being undertaken to secure funds and reduce costs to close the shortfall, and in the event of a continuing crisis presented contingency plans to maintain until the end of the year only those services deemed lifesaving, essential to protection of refugees in acute hardship, or necessary for the maintenance of public health and safety. The report concluded with a number of proposals for Member States and Observers of the United Nations and appropriate organs, with the objective of placing the Agency on a stable financial footing in a sustainable manner.

3. This note provides an update to the Special Report, with a focus on developments since its submission in August of 2015, in particular: the renewal of engagement with stakeholders to secure deeper and broader support to implement its mandate, including potential new partners; fundamental organizational and programmatic reforms raising to new levels the efficiency structure on which the Agency's service delivery rests; and the Agency's current financial position.

Developments since the submission of the Special Report of 3 August 2015

4. On 4 August 2015, the Secretary-General submitted to the General Assembly a special report of the Commissioner-General of UNRWA on the financial crisis facing the Agency. The special report alerted the international community that UNRWA's landmark education programme was at risk in autumn 2015, as a \$101 million projected shortfall was threatening to delay the school-year for 500,000 Palestine refugee students in 685 UNRWA schools in Jordan, Lebanon, the Syrian Arab Republic, and the West Bank (including East Jerusalem) and Gaza. During the summer of 2015, UNRWA embarked on a comprehensive package of internal measures and external stakeholder engagements to address the immediate crisis and enable discussions on the longer-term financial stability of the Agency. These included actions to bring about significant reductions in expenditure in an already threadbare operating budget, and mobilization of additional financial support, while taking steps to ensure core service quality.

¹ Hereafter "Special Report"

5. By late August 2015, against the \$101 million shortfall, some \$80 million in additional funding was pledged, about half of which came from Arab donors. The Kingdom of Saudi Arabia, the United Arab Emirates and Kuwait contributed a total of \$54.8 million to UNRWA in 2015, exceeding their previous contributions to the Programme Budget². These and other contributions from UNRWA's donors following the Special Report – in particular the United States, United Kingdom, Switzerland, Norway, Sweden, the European Union and the Slovak Republic, in addition to the Al-Khair Foundation and the Basque Government – enabled the Agency to start its school year without delay or interruption. On 19 August 2015, the Agency announced that UNRWA schools would open according to plan in Palestine (24 August), in Jordan (1 September), in Lebanon (7 September) and in Syria (13 September).

6. This swift and generous donor response to the crisis followed political and financial advocacy at the highest levels of the UN and Member States on behalf of UNRWA, reaffirming the importance that global leaders and Member States attach to the role of the Agency. In a context of rampant instability in the region in which the Agency operates, in particular the refugee exodus from Syria, and continuing deadlock in the Middle East Peace Process setting back the pursuit of a just and durable solution, host governments expressed – in various fora including an Extraordinary meeting of the UNRWA Advisory Commission on 26 July 2015 – heightened concerns about the Agency's fragile funding, the resulting risks to its services and the implications for their national security. Other governments in the region have echoed concerns about the Agency's under-funding, and the General Assembly has repeatedly affirmed the importance of UNRWA's operation and provision of services for the stability of the region.

7. During and after the crisis UNRWA management demonstrated its resolve to continue the implementation of cost reduction and control in its programme budget. These centred on enforcement of a classroom ceiling of 50 students and a de facto freeze on recruitment, with the exception of frontline staff meeting significant service demands, for example teachers in the Gaza Strip where a net increase of 13,000 students was recorded in UNRWA's schools for the current academic year commencing August 2016. These measures continued throughout the fourth quarter of 2015 and remain in place in 2016. They have been reinforced by stringent fiscal controls led by the Executive Office, in particular during annual budget preparation and exhaustive quarterly expenditure reviews of all Field Offices and HQ Departments. Aggressive foreign exchange hedging has also been introduced as a standard practice.

8. The internal management actions generated savings of \$8 million in 2015, and UNRWA closed the year with a balance of \$1.8 million. This was the first time in four years a positive financial result was achieved without resorting to stop-gap measures, such as suspension of vendor payments or advancing contributions, to fund operations through year's end. For an operational agency with quasi-

² Formerly the General Fund

governmental functions as a direct provider of services, the risks to planning and delivery caused by financial insecurity are severe. Breaking the cycle of financial crises is imperative and the significant steps initiated by management in 2015 are crucial in that regard. Of further significance for Agency stakeholders has been the projected expenditure under the Programme Budget for 2016 which management reduced by \$54 million against earlier projections, keeping it level with actual expenditure in 2015 of \$668 million. This was UNRWA's first ever zero-growth budget, finalized in a context of rising costs, growing refugee needs and regional conflict.

9. Building on these results, management moved forward in early 2016 with an ambitious series of programme reforms embedded in the Medium Term Strategy for 2016-2021 (MTS).³ While the MTS envisions reform roll-out over the strategic period, management – in consultation with the Advisory Commission as a whole and the facilitation of the Host authorities – fast-tracked the process and embarked on unprecedented reforms in the first months of 2016. These included a transition from “food to cash”, which entailed a shift in the way food support has been distributed by UNRWA since 1950. This was done in Jordan, Lebanon and the West Bank and involved introduction of “E-cards” combining cash and digital vouchers to some 160,000 eligible refugees. In addition, adjustments to UNRWA's hospitalization policy were implemented, which will help ensure equity in Lebanon and promote consistency across UNRWA's fields. This service will become more sustainable while preserving access to advanced medical assistance for the most vulnerable refugees.

10. Notwithstanding tangible benefits to refugees that the reforms are expected to bring, refugee anxieties run deep when changes are introduced in UNRWA's programming. As a result, the challenges to UNRWA management and in particular field staff in direct contact with beneficiaries – already high following the measures foreshadowed in mid-2015 – intensified throughout the reform process. UNRWA has, however, throughout the period under review demonstrated strong leadership in undertaking major reforms in extremely challenging operational contexts.

Partnerships & high level stakeholder engagement

11. While implementing internal measures Agency management also redoubled its longstanding efforts to deepen and broaden the base of donor supporters and find new sources of support, including by reaching out to emerging economies. UNRWA has also taken its current partnership-building approach into new territory by exploring innovative and bold relationships with global institutions such as the World Bank, as part of its Resource Mobilization Strategy (RMS) for the period 2016-2018. The RMS, which complements the MTS and addresses how the Agency can best obtain resources necessary to ensure MTS outcomes, underscores the

³ The MTS was developed in consultation with the UNRWA Advisory Commission, and lays out strategic outcomes for the 6-year period and the activities, including improvements in programme quality, required to achieve them. It is available at: <http://www.unrwa.org/resources/strategy-policy/medium-term-strategy-2016-2021>.

opportunities for UNRWA to tap into additional private and non-governmental funding, while noting the constraints in the region and the scale of UNRWA's requirements.

12. In the margins of the UN General Debate in September 2015, Jordan and Sweden's Foreign Ministers co-chaired the first Ministerial Meeting on UNRWA's financial sustainability. The views of Member States were twofold. First, UNRWA should continue reforming while ensuring that the delivery of core services is not jeopardised. Secondly, noting UNRWA's strong internal measures, the meeting participants committed to do everything possible to preserve UNRWA's response capacity through the provision of predictable, sustained, and adapted levels of funding to the Agency. In a follow up to the September 2015 meeting, Jordan and Sweden co-chaired another Ministerial Meeting at UN Headquarters in New York in May 2016 to highlight the importance of ensuring the sustainability of UNRWA. UNRWA's response capacity was highlighted also at the World Humanitarian Summit in Istanbul in May of this year. The Agency's ability to meet development and humanitarian needs simultaneously on a large scale, in vastly different operating environments, while satisfying donor expectations of transparency and effectiveness, symbolize the commitments announced during the Summit.

Financial Position as at 7 September 2016

13. Since 2015 UNRWA has taken decisive actions to enhance its efficiency structure, concentrating resources in core programming while applying restrictive guidelines to all managers involved in budget preparation, and tightening central control of UNRWA's entire budget cycle from biennial planning to quarterly expenditure. While compressing to a viable minimum its core financial requirements, UNRWA continues to shoulder its responsibilities to assist and protect the Palestine refugees with which it is entrusted by the General Assembly. Coupled with these actions are fundamental programme reforms pursued in an extremely challenging environment. The Agency has in turn counted on the international community to show collective responsibility and provide the resources needed to implement its mandate.

14. Despite the range of internal measures taken and the significant budgetary results referenced in paragraph 8 of this report, UNRWA's financial situation remained cause for serious concern. As of 7 September 2016 UNRWA faced a projected shortfall of \$96.5 million in its programme budget, equivalent to approximately three months of expenditure. UNRWA began the year projecting an \$81 million shortfall, bringing it down to \$74 million between January and June thanks to management actions and stakeholder engagement. The \$22 million increase between June and early September has not resulted from growth in expenditure; instead, some donor income forecasts have been lowered, and the Agency is also contending with adverse exchange rate movements resulting from the referendum in the United Kingdom on membership of the European Union.

15. UNRWA cannot bridge a shortfall of this size through further compressing expenditure. Taking into account the increased average classroom size, strict headcount, and core activities on behalf its beneficiaries, even a modest reduction could affect UNRWA's operations.

16. Through the first week of September, when the draft of this report was under review by the Commission, the Agency's financial situation was every bit as severe as the one faced last August. Resources to close UNRWA's \$96.5 million financial gap in 2016 remained to be mobilized. However, the challenge at hand is not merely short-term; over the long term, the Agency's income has been unstable, despite the generosity of many Member States who have stood with UNRWA and are partners in the remarkable human development of the Palestine refugees year after year. Funding crises are a constant source of pressure and the cumulative effects on the Agency and its stakeholders deepen with time. Large numbers of staff are increasingly focused on recalibrating budgets and programming in response to unpredictable resourcing. Every year the shortfall in the core budget has represented a small fraction of the amount contributed to UNRWA, but bridging it has required greater and more intensive engagement by the Commissioner-General and the deployment of ever-larger amounts of political capital. This raises serious questions about the viability of a funding arrangement requiring a greater commitment from the Agency's leadership and high level donor counterparts to closing modest funding gaps than to securing annual contributions covering 85% of core requirements. The situation shows no signs of improving; on current trends, the shortfall will grow in relative and absolute terms.

17. Donors have supported UNRWA generously, enabling it to develop the human capital of the Palestine refugees, who form a skilled population in the Middle East contributing to its development. At the same time, states within the region have an interest in seeing refugee needs met. The humanitarian, political and security considerations for UNRWA stakeholders are at odds with the unpredictable and sometimes volatile, funding arrangements on which the Agency must rely. An alternative funding approach must urgently be explored, while UNRWA continues to shoulder responsibilities to assist and protect the Palestine refugees with which it is entrusted by the United Nations General Assembly. In light of the special role played by the United Nations General Assembly in establishing UNRWA and extending it political support, its voice would be important in the search for predictable, sustainable funding for UNRWA.

18. This update comes at a time of renewed global concern about mass refugee movements. In that context, the draft New York Declaration for Refugees and Migrants to be considered for adoption by the General Assembly on 19 September 2016 states:

We note with concern a significant gap between the needs of refugees and the available resources. We encourage support from a broader range of donors and we will take measures to make humanitarian financing more flexible and predictable, with diminished earmarking and increased multi-year funding, in order to close this gap. UN agencies such as UNHCR and UNRWA and other

relevant organizations require sufficient funding to be able to carry out their activities effectively and in a predictable manner.⁴

Extraordinary Advisory Commission on 8 September 2016

19. On 8 September 2016, an extraordinary session of the Advisory Commission convened at the request of the Commissioner-General considered a draft of this report. At the session, the Commissioner-General updated the Advisory Commission on the dramatic funding shortfall and efforts to secure funds and reduce costs to close the shortfall. The Commissioner-General noted the collective responsibility to protect and assist Palestine refugees, and to invest in youth, while referring to regional stability and security to which UNRWA contributes, and which have been placed at risk by chronic financial crisis. The Commissioner-General added that funding arrangements resulting in crises are untenable and unacceptable. Members and Observers welcomed the draft update and their advice and comments have been taken into account in this report.

20. At the extraordinary session of the Advisory Commission, Members and Observers raised great concern about the financial situation of UNRWA and the possible impact on security and stability in the country and the region, as well as on Palestine refugees and staff and their families. Members and Observers expressed great appreciation to UNRWA's leadership for doing all that could be done to control costs and mobilize additional resources, while maintaining the quality and scope of UNRWA's programmes and actively implementing reforms set out in the MTS. Members and Observers also acknowledged with sincere appreciation the longstanding generosity and enormous support provided by hosts to Palestine refugees. There was strong support for finding as soon as possible concrete ways to put UNRWA on a more stable financial footing in the medium term.

21. As part of a collective effort to bridge the shortfall, at the extraordinary session the United States and Switzerland announced commitments to make additional cash contributions of respectively \$12.2 million and CHF 2.2 million (\$2.2 million) and Sweden pledged SEK 70 million (\$8.2 million), commitment of which is pending parliamentary approval. This brought the total of new cash contributions to some \$22.6 million. Brazil noted that it was in negotiations to provide an in-kind contribution of 2,000 metric tonnes of rice. Several Members indicated that they were not able to make any additional contribution in 2016 while others indicated that they would review what further contributions could be made towards the end of the year.

22. As at the date of this report, taking into account the generous cash contributions announced at the extraordinary session of the Advisory Commission, the shortfall for 2016 remains at some \$74 million, which is less than two months' operating expenses.

⁴ Paragraph 4.23.

Recommendations

23. For the second year in a row the UNRWA Commissioner-General proposes an immediate response to the gravity of the situation caused by the severe financial shortfall for 2016 currently faced by the Agency including:

(a) That this Update to the Special Report be brought to the attention of Members and Observers of the United Nations and appropriate organs of the United Nations.

(b) That a process be established urgently, based on consultations with appropriate stakeholders including the United Nations General Assembly, to identify and actively pursue measures that result in putting UNRWA on stable financial footing so that the Agency can continue to provide adequate levels of assistance and protection to Palestine refugees in accordance with its mandate.
